

STAT

Page Denied

STAT

NOMINAL AND REAL WAGES IN CZECHOSLOVAKIA

[Comment: This report presents an exploitation of an article by Vladimir Skrlant, published in the March 1956 issue of Zivot Strany (Party Life), official organ of the Central Committee of the Communist Party of Czechoslovakia.]

One of the questions of greatest interest to workers is the matter of wages. This is not odd since wages directly influence the consumption of every individual. The level of wages, and their increase or decrease, determines the quantity and quality of goods which each individual will receive from society. The extent of personal consumption serves as the primary index to the existing standard of living. Thus the great interest in wages and in the national economic problems involving wages is justified.

The relation between wages and personal consumption should be clear to everyone. Even those persons who claim that they have no interest in politics understand that the more they earn, the better they can live. The attitude of some people who reject "politics" and are interested only in their "own" is incorrect. The goal of all party and state policy in the people's democratic system is the achievement of a continually rising living standard for the workers. The personal requirements of every individual can be satisfied only if the tasks established by the party and government are carried out.

To correctly understand the wage problem, one must understand that in the people's democratic system the wage policy is a part of the economic policy of the nation, whose goal is the insurance of a systematic improvement of the living standard of all workers. The economic policy of the people's democratic nation insures the provisions necessary for the development of socialist production, and the growth of production then permits the improvement of the living standard.

To clarify the relation between wages and consumption, it is necessary to distinguish between nominal and real wages.

The nominal wage is the amount of money which the worker receives "in hand" after completing his work. The level of this amount is important in determining the personal consumption of the individual, but does not in itself indicate the true extent of the individual's personal consumption. This depends on the quantity of goods which the individual can actually purchase with this nominal wage. Each individual is primarily concerned with the amount and type of goods which his nominal wage will buy. It is, therefore, necessary to consider the real nature of the wages.

The real wage is the wage expressed in terms of a given amount and a given quality of consumer goods or services (expenses for cultural purposes, housing, transportation, etc.) which the worker can secure from society for his monetary (nominal) wage. The real wage thus shows the true extent of the individual's personal consumption and is therefore an important index to the standard of living.

The level of real wages is determined by a number of factors. The level of the real wage depends primarily on the level of retail prices of consumer goods and the cost of various services which are available to the population. The lower the prices (all other factors being equal), the higher the real wages since it is possible to purchase more goods for the same amount. On the other hand, if prices rise, the real wage decreases even though the nominal wage may remain unchanged. In addition, the level of real wages depends upon the level of taxes, expenditures for the education of children, expenditures for securing training for one's work, the level of rents, expenditures for medical services, and other expenditures. The level of real wages is thus determined by the level of all living expenses.

STAT

The level of the real wage is also determined by the relative level of nominal wages and the level of living expenses.

If the nominal wages increase and prices (or other living expenses) remain unchanged, the real wages increase. If for example, average nominal wages increase 10 percent, the workers can purchase more goods, all other factors being equal. The real wage will have increased.

The growth of the nominal wage in this case would be even greater if along with the increase in nominal wages (average earnings), a price reduction occurred. The increase in nominal wages and the simultaneous price reduction will be reflected in the substantially greater amount of goods which the workers will be able to purchase. The extent of personal consumption reaches a maximum level when an increase in nominal wages occurs simultaneously with a price reduction on consumer goods. Such developments can occur under socialism and in People's Democracies.

However, not every increase in nominal wages is reflected in an increase in real wages. If, for example, the nominal wage increases 10 percent, but at the same time prices rise 20 percent, the real wage has not increased, but has rather decreased. Even though the workers receive a greater amount of money "in hand," they can purchase less than before because prices have increased much faster than the wages. Thus personal consumption is reduced even though nominal wages have increased. Such developments occur in capitalist nations.

The mutual relation between nominal and real wages is important if one is to understand the difference between the evolution of wages under socialism and under capitalism. In practice, some of our citizens incorrectly understand the problem of compensation as a matter which is determined by the good will or the ill will on the part of persons who "have something to do with the matter." However, the circumstances which determine the evolution and the level of the wages are not a result of the will of individuals. Wages and their evolution are essentially conditioned on the operation of economic laws. Certain objective necessities in economic society dictate a certain level of wages and their evolution.

Nominal and Real Wages in the Socialist Economy

The level of nominal wages under socialism is determined by entirely different factors than under capitalism. As a result of socialist ownership of the means of production, manpower is no longer a form of goods. The means of production are the property of the workers. The wage does not therefore express the value and price of goods (manpower), but is a share of that portion of the total society's product which can be consumed by the individual worker. The level of the nominal wage is determined by the law of division according to work. This law requires that the [social] product be divided among the workers according to the quantity and quality of work performed for society.

Thus under socialism, the level of nominal wages is not regulated by the extent of the means essential for maintaining the worker's strength so that he can continue producing for his employer, but is (under proper economic practice) determined by the quantity and quality of work performed, and reflects the [individual's] share in the personal consumption fund.

In a socialist economy the evolution of the real wage is entirely different from that in a capitalist economy. The operation of the basic economic law of socialism and its proper implementation in the economic policy of the party and

STAT

the government are reflected in the continual rise in the real wages of the population. The essential goal of socialist production is a systematic improvement of the living standard. This is because the means of production are the property of society, creating conditions necessary for the continual growth of labor productivity. The increase in real wages is primarily realized through the reduction of prices on consumer goods as well as through increases in nominal wages (average earnings).

The development of socialist economy in the USSR and in the People's Democracies clearly proves the advantages of the socialist economic system over the capitalist system.

Between 1947 and 1954, retail prices in the USSR were reduced seven times, and are now 2.3 times lower than they were in 1947. This means that the same amount of goods that could be purchased for 1,000 rubles in 1947, can now be purchased for 433 rubles, leaving 567 rubles for purchases of other goods.

At the same time, there was an increase in average wages. The real wages of [Soviet] industrial workers were over 90 percent higher in 1955 than in 1940, while the real income of [Soviet] farmers increased 122 percent during the same period. The increases in real wages are reflected in increasing consumption. The retail turnover of goods which was planned for the Fifth Five-Year Plan of the USSR was completed in 4 years.

In Czechoslovakia, real wages at the end of 1954 were 20 percent higher than during the third quarter of 1953. The four price reductions which occurred between 1953 and 1955 permitted Czechoslovak workers to save an average of 12 billion crowns annually.

The increase in average earnings also influenced the growth of real wages. In 1948, the average monthly wage in industry was 735 crowns, while at the end of 1954 it was 1,281 crowns. The level of real wages is also favorably influenced by low rents, various social provisions, maternity care, maternity leave, loans to newlyweds, and other provisions which prove the state's daily interest in the welfare of the people.

In 1956, the state will spend 92.1 percent more for education, 77.1 percent more for medical care, and 121.5 percent more for the culture of each Czechoslovak citizen than was spent in 1950. Some 50.4 percent more will be spent on each insured person than was spent in 1950. The increasing expenditures of the state for social purposes mean a substantial decrease in the population's living expenses, and are an indicator of a rising living standard.

Price reductions and wage increases lead to increased consumption. In the first half of 1955, consumption of the following products was higher than during the same period of 1953 by the amounts indicated (in percent): eggs, 14; sugar, 27; butter, 53; cheese, 161; coffee, 119; rice, 226; electric appliances and radios, 60; and furniture, 30. While in the first half of 1953, some 998 refrigerators, 9,284 washing machines, and 3,687 television sets were sold in Czechoslovakia, during the first half of 1955, some 12,580 refrigerators, 85,801 washing machines, and 13,918 television sets were sold.

The evolution of the real wage in the socialist national economy is completely opposite to the evolution of the real wage in the capitalist national economy.

STAT

The increase in real wages which has taken place in Czechoslovakia in recent years does not mean that all workers are already enjoying a high living standard and that all is in order. That is not yet the case.

Undoubtedly the average living standard of workers and their families is now at a much higher level than in pre-World War II Czechoslovakia. The social injustice of the capitalist era has been eliminated and unemployment has been liquidated.

In connection with the rise in real wages in the Czechoslovak national economy, it is necessary to note that most price reductions which have taken place in Czechoslovakia up to the present have been price reductions on industrial goods. Prices on basic foods could not be reduced as much as prices on industrial products.

Thus in families which have only one income, and particularly if that income is low, expenditures for food account for the major portion of the family's entire spending. In this group of workers, the improved standard of living is not reflected in terms of personal consumption as clearly as in the case of families with higher incomes or the farmers who purchase industrial products primarily.

Czechoslovakia does not yet produce such quantities of food products that the increasing needs of all workers can be quickly satisfied. For this reason, the party and the government are preparing a number of provisions aimed at increasing agricultural production. Thus far, agricultural production has increased too slowly. Any additional increases in personal consumption on the basis of reduced prices must be conditioned on more rapid increases in agricultural production and the proportional development of all sectors of the national economy. This will permit a more rapid improvement of the living standard of even those families which now devote most of their spending to food.

Increases in real wages in a socialist economy depend primarily on increased production. The more that is produced, the more can be consumed. Price reductions and average wage increases can occur only when there is a proportional increase in production. Thus it is impossible to separate the evolution of real wages from the development of production. Increased personal consumption cannot be achieved solely by means of wage increases or price reductions without regard for the growth of production, as is sometimes stated. Increases in personal consumption can result only from increased social production. Only on the basis of increased production is it possible to realize price reductions which will raise the living standard of all workers, and to increase average earnings. All provisions of the party and the government which are aimed at insuring a systematic and proportional growth of production also lead toward increases in real wages.

In this connection, increased labor productivity, which is a deciding factor in production increases, plays the main role. For this reason, the party and government have recently established great tasks in the development of new technology and its application throughout the national economy. New technology is the basis for the continual and rapid growth of labor productivity. The effects of new technology are demonstrated in a case in the USSR. Some 58 workers required 1.5 hours to finish the piston heads for one engine. Now with an automatized production line, composed of machinery built by the Stankokonstruktsiya Plant [of Moscow], the same operation requires only two persons and 3.5 minutes.

Everything that raises labor productivity in production, including new technology, better work organization, improvement of skills, proper direction and planning of production, fair compensation on the basis of work performed, and socialist competition, is also a path toward improved real wages.

STAT

Increases in labor productivity must be achieved more rapidly than increases in wages. This relation between increases in labor productivity and wages is essential in order that the state may have adequate means for simultaneously expanding production on the basis of new technology, for raising the level of expenditures for social purposes, and for increases in personal consumption on the basis of price reductions and increases in nominal wages. If labor productivity did not increase more rapidly than wages, it would be necessary to reduce the state's expenditures for further accumulation or for social purposes or for personal consumption. This would undermine and retard further growth in production and in the living standard.

A correct proportion between the growth of labor productivity and wages is thus an important condition for continual growth of real wages. In their directives, the party and the government emphasize the importance of maintaining this proportion in every enterprise and sector of the national economy.

In connection with increases in real wages it is necessary to also emphasize the role of correct compensation according to work. The proper application of the principle of division on the basis of work performed permits the correct evolution of labor productivity and wages on one side, and at the same time assures the worker's material interest in labor productivity increases on the other side.

Enterprises where no order prevails in the system of compensation on the basis of quantity and quality of work performed usually experience a more rapid increase in wages than in labor productivity. Incorrect compensation also undermines the worker's material interest in labor productivity increases. In view of this fact, the existing deficiencies in compensation, which include low work norms, deficiencies in the pay scale, leveling of wages, and others are among the obstacles to more rapid growth of real wages.

The policy of the party and the government, based upon an understanding of economic laws, established new tasks for all workers in the 1956 economic plan, aimed at further proportional development of the national economy. The execution of these productive tasks will permit further increases in real wages and further improvement of the standard of living of the entire population.

* * *